

85th Legislative Session – 2010

Committee: Joint Appropriations

Thursday, February 18, 2010

P - Present
E - Excused
A - Absent

Roll Call

P Ahlers
P Burg
E Bartling
P Dennert
P Hundstad
P Wismer
P Novstrup (Al)
P Brown
P Carson
P Deadrick
P Peters
P Wink
P Haverly
P Putnam
P Hunhoff (Jean), Chair
P Tidemann, Vice-Chair

OTHERS PRESENT: See Original Minutes

The meeting was called to order by Senator Jean Hunhoff.

Joint Appropriations Staff Recap Session

Fred Schoenfeld, LRC Chief Analyst along with LRC fiscal analysts Annie Mehlhaff, Sue Cichos, Terry Miller and Aaron Olson met with the Joint Appropriations Committee to provide a recap of budget information. Document No. 1 was distributed.

Document 1A – Governor’s Recommended FY11 Major Items Budget Summary

This document summarizes each agency's major budget items by fund source along with any FTE action.

Document 1B - Summary of Condition Statements/Other Fund Information

Mr. Schoenfeld told the Committee the LRC staff had requested 88 condition statements from the Bureau of Finance & Management. In addition, Mr. Schoenfeld stressed that condition statements are different from the fund balances presented in the GOAC Blue Book. The condition statement presents the best available picture of the amount available for appropriation in each of the funds. In response to a question from Representative Putnam, Ms. Mehlhaff said the numbers were taken from statements prepared after the Governor presented his budget and includes the Governor's budget projections.

Mr. Schoenfeld told the Committee the trust funds and education enhancement funds were not included in the subtotal of the selected funds. Condition statements were not requested for the items listed on pages 3-7.

Document 1C – FY1020 and FY2011 Preliminary Sources and Uses Scorecard

Ms. Mehlhaff explained that that this document was a list of bills that appropriated state, federal or other funds, bills that would affect revenues, and bills with other possible impacts to state finances or the appropriations process.

Document 1D – Budget Brief 10-01 – Medicaid and Title IV-E Increases from ARRA Extension

Ms. Cichos told the Committee President Obama has included a proposed extension of the FMAP increase provided in the ARRA funding. This proposal would extend the increase for two quarters and would expire on June 30, 2011. It was pointed out that while the House bill includes this proposal, the Senate bill does not. This extension would provide an estimated additional \$36,073,000 to South Dakota in FY11.

Document 1E – February Financial Report

Mr. Schoenfeld told the Committee through January the FY10 General Fund revenues are estimated to be \$11.4 million below the budgetary estimates adopted by the Joint Committee. General Fund expenditures as of January 31, 2010 were \$38.1 million (5.8%) below the estimated FY10 General Fund expenditures year to date. The gap in spending appears to have been bridged by using federal stimulus money in place of General Funds. The state has spent approximately \$75.8 million in replacement stimulus funds.

Mr. Schoenfeld said for purposes of illustration, revenues are estimated at 3% growth in FY12 and a 6% growth in FY13. Again for illustration purposes, expenses are estimated at a 4% growth in FY12 and a 6% growth in FY13.

Document 1F – Summary of Agency Priorities

Mr. Schoenfeld said this document summarized the priorities presented by the agencies in their hearings. If these priorities are different from those of the Legislature, adjustments should be proposed to the general appropriations bill.

Department of Education

The Department of Education's budget hearing is continued from January 26, 2010. The agency referred to Document #3 from January 26.

Office of Curriculum, Career and Technical Education

The Governor recommends total funding of \$33,403,142 and 15.0 FTEs for the Office of Curriculum, Career and Technical Education for FY11. This includes a recommended increase in appropriation from the general fund of \$2,698,831 and a decreased appropriation of \$72,217 in federal fund expenditure authority.

Ms. Tamara Darnall, Director for the Office of Finance and Management, told the committee that the recommended budget changes for FY11 include:

- A decrease of \$76,248 for the reduction of 2.0 FTEs (moving 1.0 FTEs to the Office of Finance and management and elimination 1.0 FTE due to the ending of the Reading First grant);
- A decrease of \$2,943 for zero-based space billing reflecting the move to the state library;
- An increase of \$3,308 for the Bureau of Information and Telecommunications (BIT) billing; and
- An increase of \$5,693 for the employer's portion of the state health insurance plan.

Representative Tidemann asked about the impact to the career and technical courses due to the legislative change requiring students to remain in school until age 18. **Mr. Thomas Oster**, Secretary for the Department of Education (DOE), stated that the department does not know the full impact of the change since it was implemented on July 1, 2009. However, the DOE has seen an increase in the amount of courses offered and the number of students taking the courses over the years.

The committee discussed the difference of courses offered online versus via the DDN. **Mr. Mark Wilson**, Director of the Career and Technical Education, said that schools apply to become an online provider for online courses with the South Dakota Virtual School. Secretary Oster informed the committee that the South Dakota Virtual School is free to the state and schools unless the schools have a student taking an online course. Then, either the student or the school pays for the services. He stated that the DDN courses are offered by Northern State University (NSU) and there is an allocation from the DOE to offer classes to the public schools. The classes allow for two-way audio and visual interactions.

Postsecondary Technical Institutes

For State Aid to Postsecondary Technical Education for FY11 the Governor recommends an appropriation of \$20,814,229 from the general fund, an increase of \$2,696,804 or 13.6%. This appropriation is distributed to the four postsecondary technical institutes based upon tuition received by each institute.

Ms. Darnall stated that the technical institutes have experienced a large increase in student numbers. Depending on the technical institute, there is a 13% to 33% increase at the institute. The average increase for all technical institutes is 18%. This increase is in part due to the Department of Labor (DOL) request to have the technical institutes be the first responder to the state unemployment issue.

Last year, the DOE and the technical institutes created a distribution process based on a funding formula similar to the K-12 state aid formula. This formula went through and was approved in the rules process.

In response to Representative Tidemann's question, Ms. Darnall stated that there are 5,950 students enrolled at the technical institutes.

Mr. Wilson explained the distribution formula and the process used to determine the FY11 budget request.

Representative Wink asked if the students pay different fees depending on the type of course. Mr. Wilson stated that the technical institutes have a set state tuition and fee amount. Certain high cost programs will charge an additional local fee to address the increased cost for the course.

Representative Tidemann asked about the Adult Farm program at Mitchell Technical Institute (MTI). **Mr. Greg Von Wald**, President of MTI, said that the rule provides the base funding for the Adult Farm program. The MTI has about five major contributors to this program that have committed funding for three years. The institute has advertised to hire an additional instructor for the program. Mitchell Technical Institute intends to have a total of five instructors in three years. The program will be expanded online and MTI is currently in the process of determining how to deliver courses at other sites.

Representative Peters asked about the federal stimulus funds from the DOL. **Ms. Deb Sheppard**, President of Lake Area Technical Institute, stated that the stimulus money was awarded to the DOL and dispersed to the technical institutes in a lump sum based on specific projects which the technical institutes identified as pressing needs in the local region. These projects have been completed. Now, the stimulus funds follow students that take high-need courses. The technical institutes only offer a high-need course if enough students are registered for the program.

Senator Haverly requested the DOE provide information on the stimulus funds provided to the technical institutes, including total amount distributed to each institute and how expended.

Education Resources

For FY11, the Governor recommends a total appropriation of \$221,631,966 and 55.0 FTEs. The recommendation is an overall decrease of \$7,828,600; comprised of a decrease of \$365,292 in general funds, a decrease of \$7,693,619 in federal fund expenditure authority, and an increase of \$230,311 in other fund expenditure authority.

Ms. Darnall said that the recommended budget changes for FY11 include:

- A decrease of \$76,248 for the reduction of 2.0 FTEs (move 1.0 FTE to the Office of Finance and Management and eliminate 1.0 FTE in the Office of Education Services and Resources);
- A swap of general funds for ARRA funds (decrease of \$341,219 in general funds);
- An increase of \$860,096 in federal flow through grants for the Title 1 program;
- An increase of \$250,000 in federal funds for the 21st Community Learning Center;
- An increase of \$250,000 for a Wellmark Foundation grant for the Coordinated School Health;
- A decrease of \$9,128,285 in ARRA fund authority;
- A decrease of \$14,249 for zero-based space billing reflecting the move to the state library;
- An increase for the BIT billing rate; and
- An increase of \$21,070 for the employer's portion of the state health insurance plan.

Ms. Darnall noted that the state needs to have the same amount committed annually to the Birth to Three Program. The program can still be maintained at the same funding level with the ARRA funds.

In response to Senator Hunhoff's questions, Ms. Darnall stated that the expenses for the Birth to Three program were lower last fiscal year. With the changes that occurred last year, the DOE is trending to be on budget to end FY10.

Education Service Agencies

For FY11, the Governor recommends a total appropriation of \$500,000 in general funds and no FTEs. This is the same funding as in FY10.

Ms. Darnall noted that the Education Service Agencies (ESA) received a fairly significant budget cut last year in the amount of \$1.5 million. The department was asked to maintain the same budget for FY11.

Senator Hunhoff asked if the schools contribute to the ESA funding. Secretary Oster stated that the ESAs were originally funded at \$2 million. With the budget cut last year, the schools use the ARRA funds to support the ESA services and materials. As a result of the budget cut, one ESA dissolved. The ARRA funds are only allowed to be used in the 2009-2010 and 2010-2011 school

years. After the ARRA funds are eliminated, it will be difficult for the schools to contract with the ESAs.

Representative Tidemann asked for three functions and impacts the ESA have on the schools. **Mr. Wade Pogany**, Director of the Education Service Agencies, responded that the ESA provide essential services including:

- Planning, monitoring, and intervention services helping every school that is placed on NCLB school improvement to provide a plan on how to be removed from the NCLB school improvement list;
- Becoming the vehicle to provide professional development to schools; and
- The money spent on the ESAs is contributed three-fold in in-kind services. The money directly provided to the ESA is an in-kind contribution from the co-ops. The co-ops also pay for the cars, fuels, lights, etc. for the ESA.

In response to Representative Deadrick's question, Mr. Pogany stated that originally there were seven ESAs, but ESA 4 at Northern State University was dissolved into ESA 1, ESA 2, and ESA 5. The ESA was dissolved because NSU did not have a co-op as a base funding source and relied solely on state funding. When the state funding was eliminated, NSU was not able to support the program.

Secretary Oster said, in response to Representative Hunhoff's question, that not all small schools can afford to hire a specialty teacher. The smaller schools pooled together money and hired one specialist through a co-op that would provide the services to the area. Mr. Pogany stated that the ESAs were created as an arm of the DOE to meet the needs created from No Child Left Behind (NCLB). The ESA co-ops have become quasi-entrepreneurial in finding other local needs to be met.

Mr. Pogany said that individual school districts that created the co-op own the co-op. Every school district has an ESA, but not every district has a co-op. The DOE gives a grant to the co-op to provide the services required under NCLB.

Secretary Oster said that about 95% of the co-op money is federal flow through special education money. The schools may decide to place a small amount of general funds to work on a special project.

State Library

For FY11, the Governor recommends funding of \$1,863,603 from the general fund, \$1,192,770 in federal fund expenditure authority, and \$186,083 in other fund expenditure authority.

Ms. Darnall said that the recommended budget changes for FY11 include:

- A decrease of \$237,817 for the zero-based space billing reflecting the move to the state library;

- An increase of \$1,363 for the BIT billing; and
- An increase of \$8,222 for the employer's portion of the state health insurance plan.

In response to Representative Wink's question, Ms. Darnall stated the actual use of FTEs in the department is lower as a reflection of some vacant positions.

Representative Ahlers requested a copy of the zero-based space billing.

Ms. Darnall stated, in response to Representative Wismer's question, that the overall budget has a decrease in space billing. Currently, the State Library is paying a space billing rate for both floors of the library and the DOE is paying for the space occupied on the top floor of the Kneip Building. The department will pay less for space billing when the DOE moves and occupies the top floor of the State Library.

Senator Hunhoff asked about the services to state employees. **Mr. Dan Siebersma**, Director of the State Library, said that the State Library has an outstanding research staff that is willing to help any legislator or state employee research a topic to help make informed decisions. If a local library is not able to provide the requested information, they can ask the State Library and information is forwarded to the local library.

Representative Peters requested a breakdown of the expenses for the individual other fund sources.

Senator Hunhoff asked about schools contemplating consolidation in FY11. Secretary Oster stated that no school district has contacted the DOE with an intent to consolidate for FY11. However, two schools are in the process of dissolving and attaching, but the schools would not be eligible for the consolidation incentives.

MOTION: ADJOURN

Moved by: Deadrick
Second by: Haverly
Action: Prevailed by voice vote.

Barb Bjorneberg and Lisa Shafer
Committee Secretary

Jean M. Hunhoff, Chair